MANAGEMENT REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2006

The following discussion should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of March 31, 2006 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2005 and notes thereto. This report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements may be identified by the words “anticipate”, “believe”, “estimate”, “expect”, “plan” and similar expressions. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those discussed in our filings with the Securities and Exchange Commission from time to time.

OVERVIEW

We are a high technology operational holding company that operates through subsidiaries and affiliated companies, referred to as our group companies. Founded in 1962, we have been a major force in the development of the Israeli high technology industry by building Israeli and Israel-related companies with technologies in the fields of medical devices, communications, semiconductors, software products and services and advanced materials.

Our group companies include both publicly traded and privately held companies.

Our activities range from operational control over the business to involvement in the management of our group companies in which we maintain controlling or significant holdings, and, in a limited number of cases, non-significant holdings. We participate in the management of most of our group companies by means of active membership on their boards of directors and board committees. As a result, we are involved in matters of policy, strategic planning, marketing, selecting and manning senior management positions, approving investments and budgets, financing and the overall ongoing monitoring of our group companies’ performance. In addition to our representation on the boards of directors of our group companies, we provide hands-on assistance to the group companies' management in support of their growth. We view our hands-on involvement in the operations of our group companies as a key element of our business. Our group companies therefore benefit from the experience of our management team in various areas in which they need support and leadership, including, but not limited to, strategic planning, research and development guidance, identifying joint venture opportunities, introductions to potential customers and investors, risk management, market analysis, business plan preparation, budgetary control, and legal support.

Technology industries are characterized by the high degree of risk inherent in their products, their continuous technological innovation and their penetration into world markets, which requires investment of considerable resources and continuous development efforts. The future success of our group companies is dependent upon their technological quality, prices and nature of their products in comparison to their competitors and their ability to introduce new products to the markets at the right time, while offering cost effective solutions suitable to their customers' needs as well as their ability to raise financing and the condition of the capital markets.

We expect to continue to build and realize value for our shareholders through the sale to third parties of a portion or all of our holdings in, or the issuance of shares by, our group companies, while simultaneously pursuing the acquisition of, or investment in, new and existing companies at different stages of development including early stage and more mature companies. We believe that this strategy provides the ability to increase shareholder value as well as to create capital to support the growth of our group companies and to invest in new opportunities. The nature of our business, therefore, will result in some volatility in our results of operations, depending on the transactions that occur within a particular period.

Our net income (or loss) in any given period is due, for the most part, to the results of operations of those of our group companies which are accounted by us under the consolidation or equity method of accounting and dispositions and changes in our holdings of group companies. As most of our group companies are technology companies which have not yet generated significant revenues and which invest considerable resources in research and development and in marketing activities, we have experienced, and expect to continue to experience, losses in respect of these companies to the extent they are accounted by us under the consolidation or equity method of accounting.

Our capital resources in any given period are primarily affected by the extent of our investment in existing and new companies and the realization of certain holdings as well as the impact of any dividends or distributions to our shareholders. The results of operations of our group companies, and consequently, our results of operations and capital resources, are affected by general economic conditions as well as by factors specifically related to the technology markets, which also affect the ability of our group companies to raise financing and our ability to dispose of holdings and realize gains from our holdings.

TREND INFORMATION

Technology industries are affected by economic trends and the condition of the capital markets. Since the second half of 2003, there has been a recovery in the technology sectors and capital markets from the downturn which commenced in 2001. This trend was reflected in the improvement in the results of operations of most of our group companies as well as the raising of funds from new strategic and other investors in private placements completed by some of our group companies. In addition, we recorded significant gains from realizing certain of our holdings, mainly in 2004 as a result of the sale of our holdings in Elbit Systems Ltd. (Nasdaq: ESLT) ("Elbit Systems"), and in the second quarter of 2005 from the sale of most of our shares in Partner Communications Company Ltd. (Nasdaq: PTNR) ("Partner") and the sale of all of our shares in Oren Semiconductor, Inc. ("Oren"). Total proceeds from these transactions amounted to approximately $310 million. We have used the proceeds to distribute dividend of $88.5 million to our shareholders and to continue investing in existing and new group companies. Since 2004 we invested $55.5 million in 9 new companies. Should the improvement in the technology sectors and capital markets continue, we anticipate that it will have a positive effect on our group companies and their ability to raise additional capital.

NEW INVESTMENTS

Investment in Safend Ltd. ("Safend"). On January 2, 2006, we completed an investment of approximately $3.7 million in Safend, as part of an aggregate investment of approximately $7.4 million, in consideration for approximately 22% of Safend's equity on a fully diluted basis and on an as converted basis. Safend is an Israeli company which develops comprehensive desktops and laptops endpoint security solutions.

Investment in NuLens Ltd. ("NuLens"). On March 9, 2006 we made an additional investment of approximately $1.5 million in NuLens, an Israeli medical device company operating in the field of intra-ocular lenses, mainly for cataract and presbyopia procedures. Our investment was part of an aggregate new investment of approximately $6.0 million, led by Warburg Pincus, a leading global private equity fund. Simultaneously with this round we invested the second installment of our April 2005 first investment in NuLens, amounting to $1.1 million. Following the above investments, Elron holds 25% of NuLens' equity, on a fully diluted and on an as converted basis.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

See our management report for the year ended December 31, 2005, regarding Elron's status with respect to the U.S. tax provisions regarding passive foreign investment companies ("PFIC").

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States (“US GAAP”). Our significant accounting policies are more fully described in Note 2 of the Notes to our 2005 Annual Consolidated Financial Statements. The accounting policies which are particularly important to the assessment of our financial position and results of operations are described in the management report for the year ended December 31, 2005.

BASIS OF PRESENTATION

Consolidation. Our consolidated financial statements include the accounts of Elron and all of our direct or indirect (through Elbit and DEP) controlled subsidiaries. The following are our main subsidiaries:

Three months ended March 31,				
2006			2005	
RDC	SELA	3DV	Elron TeleSoft[1]	SELA
Galil Medical	Medingo[2]	Starling	RDC	3DV
		Enure[3]	Galil Medical	Starling

[1] Sold on December 29, 2005.
[2] Medingo was established by RDC in the fourth quarter of 2005.
[3] Enure (formerly known as Gaia Broadband Services Management Ltd.) has been consolidated since the beginning of the fourth quarter of 2005.

Equity Method. Our main group companies held by us or through Elbit, DEP, Galil Medical and/or RDC accounted for under the equity method of accounting include:

Three months ended March 31,					
2006			2005		
Given Imaging	Wavion	CellAct	Given Imaging	ChipX	Pulsicom
Oncura	AMT		Oncura	Wavion	CellAct
NetVision	Notal Vision		NetVision	AMT	
ChipX	Pulsicom		Oren Semiconductor[1]	Notal Vision	

[1] Sold on June 10, 2005.

Other investments. Our main group companies held by us which are accounted for under the cost method or as available-for- sale as of March 31, 2006 include:
Cost - Jordan Valley, Teledata, Impliant, BrainsGate, NuLens and Safend.
Available-for-sale Securities – Partner and EVS.

RESULTS OF OPERATIONS

Three months ended March 31, 2006 compared to three months ended March 31, 2005.

The following tables set forth our results of operations in the reported period:

	Three months ended March 31,	
	2006	**2005**
	(millions of $, except per share data)	
Net loss	(3.5)	(5.1)
Net loss per share	(0.12)	(0.17)

The net loss we reported in the three months ended March 31, 2006 and March 31, 2005 resulted from our share in the net loss of our group companies in the amount of $5.0 million and 4.8 million, respectively and from the absence of gains from sales of our share of group companies in both periods.
In the first quarter of 2006 MediaGate's bank loan in the amount of approximately $2.8 million was extinguished. As a result, we recorded in the first quarter of 2006, a gain of approximately $2.7 million which partially offset the losses resulting from our group companies.

The following table summarizes our operating results:

	Three months ended March 31	
	2006	2005
	(millions of $)	
Net revenues	3.3	3.0
Net loss from equity investments	(3.5)	(3.6)
Gains from disposal of business and affiliated companies and changes in holdings in affiliated companies	-	-
Other income, net	2.7	0.3
Finance income, net	1.1	0.9
Total income	3.6	0.6
Cost of revenues	1.8	1.9
Operating expenses	6.7	3.7
Total costs and expenses	8.5	5.6
Loss from continuing operations before income taxes	(4.9)	(5.0)
Tax benefit (Income taxes)	(0.3)	0.2
Minority interest	1.7	0.2
Net loss from continuing operations	(3.5)	(4.6)
Discontinued operations of the Elron Telesoft group (*)	-	(0.5)
Net loss	(3.5)	(5.1)

* In December 2005, we sold all our holdings in the Elron Telesoft group which was focused on telecom network management products and services, and accordingly the prior period results have been reclassified as discontinued operations.

Income

Net revenues. Net revenues consisted of sales of products and services by our subsidiaries, mainly Galil Medical and SELA. The following table sets forth these revenues:

	Three months ended March 31,	
	2006	2005
	(millions of $)	
Galil Medical	1.8	2.0
SELA	1.5	1.0
	3.3	3.0

Galil Medical's revenues derived mainly from the supply of cryo products and R&D services to Oncura, in which it has a 25% ownership interest.

Share in net losses of affiliated companies. Our share in net losses of affiliated companies resulted from our holdings in certain investments that are accounted for under the equity method (see above under "Basis of Presentation"). Our share in net losses of affiliated companies amounted to $3.5 million in the three months ended March 31, 2006, compared to $3.6 million in the same period in 2005.

Highlights of the Results of Operations of Our Major Affiliates*:*

Given Imaging (Nasdaq: GIVN) (a 19.4% holding directly and indirectly through RDC). Given Imaging Ltd. ("Given Imaging"), a medical device company that develops, manufactures and markets innovative diagnostic systems for visualizing the gastrointestinal tract, using a disposable miniature swallowable video capsules, recorded revenues of $20.3 million in the first quarter of 2006 compared to $22.0 million in the first quarter of 2005. The revenues in the first quarter of 2005 include $3.2 million related to a special PillCam ESO promotion. Given Imaging's net loss in the first quarter of 2006 was $3.0 million, compared to net income of $1.2 million in the first quarter of 2005. The net loss in the first quarter of 2006 includes the impact of $1.3 million due to FAS 123R, which was adopted by Given Imaging as of the beginning of 2006.

Oncura (a 25% holding by Galil). Oncura, which markets and sells therapeutic device systems and related consumables used primarily in the performance of minimally-invasive, urologic cancer treatment, recorded revenues in the three months ended March 31, 2006 of approximately $16.6 million compared to $18.4 million in the first quarter of 2005. Oncura's net loss in the three months ended March 31, 2006 amounted to $1.7 million compared to $0.8 million in the first quarter of 2005. The increase in the net loss resulted primarily due to the decrease in revenues. In May 2006 Oncura's shareholders provided to Oncura a letter in which they confirmed their intention to continue providing financial support to Oncura through May 2007 or such later date, as may be agreed by Oncura's shareholders.

NetVision (a 39% holding) (TASE: NTSN). NetVision provides Internet services and solutions in Israel and commencing the fourth quarter of 2004 international telephony services through Voice over IP technology (VoIP). NetVision's revenues in the three month period ended March 31, 2006 increased by 12.6% to $19.7 million from $17.5 million in the same period in 2005 and its customer base at March 31, 2006 reached approximately 433,000 (of which approximately 283,000 were broadband) compared to 425,000 at the end of 2005 (of which approximately 272,000 were broadband). NetVision's operating income in the three month period ended March 31, 2006 increased by 126% to $2.5 million, compared to $1.1 million in the same period in 2005, mainly as a result of the decrease in lossses in the international telephony services and increase in Internet services operating income, and its net income increased to $1.8 million from $0.1 million in the first quarter of 2005. NetVision's operating currency is the New Israeli Shekel (NIS) and accordingly, all figures above are translations for convenience purposes of NetVision's NIS figures into US dollars at the representative rate of exchange prevailing at March 31, 2006 according to which $1.00 equaled NIS 4.665.
NetVision's future period results will continue to be affected mainly by the highly competitive Internet broadband market environment in Israel, and whether Internet prices will continue to decrease or will stabilize, as well as from costs incurred in connection with the highly competitive international telephony services market in Israel.
On May 1, 2006, NetVision announced that it will be entering into merger discussions with Barak I.T.C. (1995) International Telecommunications Services Corp. Ltd ("Barak"), a subsidiary of Clal Industries and Investments Ltd. ("Clal"). Elron, Clal and Discount Investment Corporation, the other major shareholder of NetVision and a 47.6% shareholder of Elron, are all part of the IDB group. Barak engages mainly in the provision of international telecommunication services. The transaction, if it takes place, will be subject to the signing of a definitive agreement as well as corporate and regulatory approvals. There is no assurance that the transaction will take place.

Wavion (a 38% holding). Wavion is a developer of broadband wireless access systems for Wi-Fi networks. Wavion's net loss amounted to $2.1 million in the three month period ended March 31, 2006 compared to $1.7 million in the same period in 2005. Wavion's loss consisting mainly of research and development expenses.

ChipX (a 27% holding as of March 31, 2006). ChipX is a manufacturer of late stage programmable application-specific integrated circuits, or structured ASICs. ChipX's revenues in the three month period ended March 31, 2006 amounted to $3.5 million, compared to $5.0 million in the same period in 2005, and its net loss amounted to $1.7 million, compared to $0.6 million in the same period in 2005. Revenues decreased as ChipX shifted from its old product to the new Structured ASIC products. In May 2006, ChipX completed a private placement of $6.0 million from existing shareholders, the proceeds of which will be used to finance its sales and marketing activities. We invested approximately $2.3 million in this round resulting in the increase in our interest in ChipX from 20.7% to 22.6%, on a fully diluted basis.

AMT (a 42% holding). The AMT group develops technologies and products based on amorphous metals. AMT's consolidated revenues in the three month period ended March 31, 2006, amounted to $0.8 million, compared to $0.7 million in the first three months of 2005 and its consolidated net loss amounted to $1.5 million in the first quarter of 2006, compared to $0.7 million in the same period in 2005. AMT's main subsidiary, AHT, which uses amorphous metals for heating products, recorded revenues of $0.5 million in the three month period ended March 31, 2006, the same as in the comparable period in 2005, and recorded a net loss of $0.7 million compared to $0.4 million in the same period in 2005.

We expect that most of our group companies as well as new companies in which we will invest will continue to recognize losses in future periods, as they invest significant resources in research and development and sales and marketing activities and have not yet generated significant revenues. Our results of operations will therefore be affected by the extent of our share in their net losses (to the extent they are reported under the equity or consolidation method of accounting).

Gains from Disposal of Businesses and Affiliated Companies and Changes in Holdings in Affiliated Companies. No gains from disposal of businesses and affiliated companies and changes in our holdings in affiliated companies were reported in the three month period ended March 31, 2006 and 2005.

Other Income, net. Other income, net, amounted to $2.7 million in the three months ended March 31, 2006 compared to $0.3 million in the same period in 2005. The gain in first quarter of 2006 was mainly due to the extinguishment of Mediagate's bank loan.

Finance income, net. Finance income, net, amounted in the three months ended March 31, 2006 to $1.1 million, compared to $0.9 million in the same period in 2005.

Expenses

Cost of revenues. Cost of revenues consisted primarily of expenses related to salaries and hardware associated with delivering products and services of our subsidiaries, mainly Galil Medical and SELA. Cost of revenues in the three month period ended March 31, 2006 amounted to $1.8 million, compared to $1.9 million in the same period in 2005.

Operating expenses. Operating expenses are comprised of research and development expenses, sales and marketing and general and administrative expenses of our and RDC's corporate operations and of our subsidiaries, mainly Galil Medical, SELA, Starling and 3DV. The following table sets forth the operating expenses:

	Three months ended March 31,	
	2006	2005
	(millions of $)	
Corporate	1.6	1.8
Galil Medical	0.7	0.7
SELA	1.1	0.8
Starling	1.2	0.4
3DV	0.6	0.3
Other (mainly RDC)	1.3	(0.3)
	6.7	3.7

Operating expenses of Galil Medical in the three months ended March 31, 2006 amounted to $0.7 million, the same as in the first quarter of 2005 and its operating results amounted to operating loss of $0.7 million compared to an operating loss of $0.6 million in the same period in 2005.The operating loss was due to the development by Galil Medical cryotherapy technology for application in the women's health field. In November 2005, Galil Medical's Cryo products received FDA clearance for the treatment of breast fibroadenoma (non cancerous breast lumps).

SELA's operating expenses amounted to $1.1 million in the three months ended March 31, 2006, compared to $0.8 million in the same period in 2005 and its operating loss amounted to $0.2 million, which was the same as in the comparable period in 2005.

Starling's operating expenses and operating loss amounted to $1.2 million in the three months ended March 31, 2006, compared to $0.4 million in the same period in 2005.The increase resulted from the increase in research and development expenses.

The increase in operating expenses of the other companies resulted mainly from research and development expenses in Medingo and Enure, the results of which have been consolidated in our financial statements since the fourth quarter of 2005. In addition, in the first quarter of 2005 the amount included $0.6 million income recorded by RDC with respect to employee stock option plans resulting from the decrease in the fair value of call options to purchase shares of affiliated companies but no such income was recorded in the first quarter of 2006.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits at March 31, 2006, were approximately $128.9 million compared with $143.8 million at December 31, 2005. At March 31, 2006, corporate cash, debentures and deposits were $121.3 million compared with $133.8 million at December 31, 2005.

The main uses of the corporate cash and other liquid instruments in the first quarter of 2006, were $12.0 million of investments in our group companies, which included the purchase of additional 0.6% of Partner shares from one of the other Israeli founding shareholders of Partner on March 21, 2006, for approximately $5.3 million, $2.6 million investment in Nulens and $3.5 investment in Safend.

Consolidated working capital at March 31, 2006 amounted to $123.2 million compared to $136.2 million at December 31, 2005. The decrease is mainly due to the decrease in corporate cash and other liquid instruments.

Consolidated loans at March 31, 2006, were approximately $4.2 million, compared to $7.3 million at December 31, 2005. In the first quarter of 2006 MediaGate's bank loan in the amount of approximately $2.8 million was extinguished.

Almost all of the Partner shares held by us as of March 31, 2006, amounting to approximately 3.9 million shares, are subject to certain transfer restrictions under Partner's Israeli communications license.

Subsequent to March 31, 2006 and through May 16, 2006, we invested an additional aggregate amount of approximately $2.7 million, of which mainly $2.3 million was invested in ChipX.

Our investment policy for managing our funds is in general to invest in bank deposits and U.S. government securities with high liquidity.

We believe that our existing capital will be sufficient to fund our and our subsidiaries' operations and our investment plan in existing and new companies for at least the next twelve months.

Shareholders' equity at March 31, 2006, was approximately $297.6 million, representing approximately 86% of the total assets compared with $302.1 million representing approximately 85% of total assets at December 31, 2005.

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